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Utilizing Economic Ties with China: Brazilian Economic Development Policy in the Age of  
Bolsonaro  
By Aotian Zheng

## 1. Introduction

On October 24, 2019, Brazilian President Bolsonaro made his first official visit to China since the start of his presidency. During his speech at the Brazil-Chinese Economic and Trade Cooperation Forum, Bolsonaro claimed that China and Brazil "were born to walk together," stating that the two governments are "completely aligned in a way that reaches beyond our commercial and business relationship" (Bloomberg, 2019). Considering Bolsonaro's past as a right-wing politician who openly identifies himself with U.S. President Donald Trump, his transformation from radical basher of the Chinese economic presence in Brazil to an advocate of the Sino-Brazilian economic relationship is significant. Not only does it demonstrate Bolsonaro's pragmatism, but it also represents the deep economic tie between China and Brazil, who are incidentally two of the largest economies in the world.

Back in 2018, Bolsonaro's possible victory created a wide-spread panic amongst Chinese investors in Brazil. Fearing the policy shift caused by a right-wing victory in the Brazilian Presidential election, Chinese investments in Brazil dropped 75.5% in 2018 (MACAUHUB, 2019). As a politician who is famous for criticizing Chinese investment in Brazil, Bolsonaro strictly criticized China's deep involvement in Brazil's mining sectors, claiming this a predatory practice (Lapper, 2019) based on an unbalanced trade relationship in which Brazil only served as the provider of a natural resource for the booming Chinese economy (Lapper, 2019). However, much to the surprise of the Chinese, after his victory, Bolsonaro demonstrated friendly gestures toward Chinese investment. His visit to China on October 25, 2019, showed that despite his discontent on the unbalanced trade relationship between China and Brazil during the election, Bolsonaro recognized the importance of the China-Brazilian relationship to Brazilian society. However, it may not be enough to mend the skepticism of Chinese investors. Despite signing multiple deals on infrastructure development and agricultural trade with Chinese companies, Bolsonaro did not achieve any significant agreements on economic and technological cooperation with China, as some optimistic observers had predicted (Ribeiro, 2019).

Bolsonaro's showing of goodwill to Chinese investment has raised suspicion and discontent from the United States, as some media claims Bolsonaro failed to fulfill his political promise during the election and fell under the Chinese economic influences (Brain, 2019). In the context of the trade dispute between China and the United States in 2019, the United States' suspicion of Bolsonaro's visit in China could ultimately damage Bolsonaro's effort to improve the US-Brazilian relations.

Currently, Bolsonaro's government is focusing on boosting Brazil's economic development. A healthy economic relationship with China will significantly contribute to Brazil's goal of economic development. However, the complexity of this bilateral relationship also require Brazilian government to act with prudence. To address this policy question, the objective of this paper is to provide a policy recommendation for the current Brazilian government on adjusting their economic relationship with China. This paper will identify the significant policy dilemma that the current Brazilian government is facing on achieving economic development and managing the economic relations with China in the field of investment, technological innovation, and trade. This study will then evaluate the policy alternatives for the Brazilian government and construct a series of viable policy recommendations. The purpose of the policy recommendation is to help Brazil utilize investment and trade relationships with China not only to resolve the current economic

challenge Brazil but also to cultivate the competitiveness of Brazilian enterprise that serves Brazil's long-term economic development.

## **2. Literature Review**

The Sino-Brazil partnership occupies a unique position among the partnerships China has developed in Latin America. Driven both by China's rapid economic growth and the political support of the left-wing government of Brazil, China's economic and political ties with Brazil have been greatly strengthened in the last two decades.

Brazil established diplomatic relations with the People's Republic of China in 1974. However, the Sino-Brazilian relationship only started to deepen as Brazil began the process of political liberalization under the leadership of Joao Figueiredo in the 1980s. In 1993, China and Brazil recognized each other as "strategic partners," which made Brazil the first Latin American country to receive this designation from the Chinese government. In the following years, this relationship was deepened through the government of Fernando Henrique Cardoso (1995-2003), Luiz Inácio Lula da Silva (2003-2011) and Dilma Vana Rousseff (2011-2016) (De Oliveira 2010). In 2015, during Chinese Prime Minister Wen Jia Bao's official visit to Brazil, the Chinese and Brazilian governments signed a new joint declaration to enhance their relationship to the level of "Global Strategic partnership," which further emphasized the unique relationship between China and Brazil in Latin America (Zhou, 2019).

Accompanying the development of political relations is the strengthening of economic ties between China and Brazil. Both China and Brazil are considered as two of the most important emerging economies in the globe by many international observers (Neil, 2001). After the economic crisis of 2008, motivated by both fast recovering Chinese economy and left-leaning foreign Policy of President Lula, China became Brazil's largest single trade and investment partner in 2009. By the end of 2017, China served as both the largest import origin and export destination for Brazil, providing Brazil about \$21 billion of trade surplus with China (OEC, 2018). The abundant mining resources of Brazil, as well as the massive soybean production of the country, made it one of China's most valuable trade partners (OEC, 2018). Brazil's natural resources, especially oil, rare metals, and soybeans, gradually became an essential part of Chinese industrial development. Consequently, this made maintaining the bilateral relationship between China and Brazil also start to gain higher priority in the Chinese policy-making circle (Elmer, 2019).

However, despite its fast development, the Sino-Brazilian Relationship has faced significant struggles in the last several decades. In the field of international politics, despite being a long-term supporter of Latin America's political and economic autonomy, the Chinese government did not provide substantive support on Brazil's pursuit of a permanent seat on the United Nations Security Council (Zhou, 2019). In the economic realm, the trade of raw materials is still the predominant trade between China and Brazil, contributing little to Brazil's industrial upgrading in the global supply chains. Trade with China has not only strengthened Brazil's role in the global economy as a raw material supplier but also in generating potential environmental and social risk. In the meantime, the foreign direct investment (FDI) from China is still experiencing relatively slow growth due to Brazil's protectionist policy on foreign investment.

President Bolsonaro's critique of Chinese investment, which contributed to his victory during the election, further emphasized the struggle of Sino-Brazilian economic relations. During his campaign, Bolsonaro strictly criticized the Chinese investment in Brazil's mining industry, especially the niobium industry (Lapper, 2019), calling it a threat to Brazil's economic sovereignty. Bolsonaro's criticism of Chinese investment generated a considerable amount of support from the Brazilian voters, which partly reflected Brazil's public opinion on

Chinese economic presence in their country. In this situation, moving the unbalanced economic relationship with China toward a more sustainable and mutually beneficial direction should be the focus of current government policy.

China's economic and political presence in Brazil has become an essential topic of international relations since the dawn of the twentieth century, especially among scholars in Latin America. The research on the contemporary Sino-Brazilian economic relationship focuses on three different topics: 1. The impact of Chinese direct investment and manufacturing export on Brazil's economy; 2. The natural resource exportation model between China and Brazil; 3. The geopolitical implications of the Sino-Brazilian relationship, particularly regarding the potential conflict with the interests of the United States.

Regarding the Chinese exportation to Brazil, the researchers' opinions are divided. Some researchers argue that the current relationship between Brazil and China is highly imbalanced and strongly favors China over Brazil (Pereira, Neves, 2011). The authors argue China has more effectively utilized the natural resources from Brazil for domestic industrial and economic development, meanwhile, Brazil lacks the institutions and productive economic environment to utilize Chinese capital for infrastructure and research and development.

Jenkins concluded that the economic rise of China greatly favors Brazil's mining and agricultural sector, effectively damaging the global competitiveness of Brazil's manufacturing sector (Jenkin, 2012). Some researchers also observed that the Chinese enterprises in Latin America are putting considerable effort into diversifying their exports in Latin America, which sometimes creates more significant threats than it does benefits to the manufacturing enterprise in the region (Shambaugh, Murphy, 2012). However, some scholars demonstrated a positive or neutral attitude toward Chinese exports in Brazil. Santiso (2006) argues that China's trade impact in Latin America can have a positive effect on the Latin American economy by encouraging Latin American countries, including Brazil, to adopt more progressive economic and financial reforms to utilize in Latin America's comparative advantages in the global supply chain. Similarly, Jenkins and Freitas (2016) argue that the negative effect of increasing Chinese exports on Brazil's industry has been exaggerated as it does not pose high competition against Brazilian enterprise in Brazil's domestic market. Jenkins and Freitas encourage the Brazilian government to seek more technology transfer in trade with Chinese companies and help them to manufacture their products locally.

In terms of the Chinese direct investment in Latin America, Avendano, Melguizo, and Miner (2017) observed that despite the fact that the mining and financial industry still received the majority of Chinese investment, the Chinese investment within the service industry and renewable energy sectors is experiencing the fastest growth in Brazil.<sup>1</sup> In the meantime, Chen (2014) also argues that Chinese companies are still learning how to operate in Brazil's economic environment in the midst of complex and protectionist investment policies that can often lead to the delay and cancellation of investment projects. Veiga and Rios (2019) observed that Chinese investors are increasingly interested in the R&D sectors in Brazil, including research centers, universities, and manufacturing industries. However, despite recovering from the shocking decrease in 2018, Chinese investors are still suffering from a lack of access to R&D sectors and Brazil's complex taxation policy.

Concerning the resource-driven trade between China and Brazil, many scholars have focused on the correlating environmental cost. Ray, Gallagher, Lopez, and Sanborn analyzed the environment and social impact of resource-driven Chinese investment in Latin America (2015). The research recommends that both the Latin American government and Chinese

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international firms implement better social and environmental regulation over the operation of Chinese companies in Latin America. This is intended to include the establishment of independent monitoring on ecological impact, better cooperation with local civil society, and the creation of a more transparent policy-making process (Ray, Gallagher, Lopez, Sanborn, 2015).

After studying the operation of a Chinese nationally owned oil company in Brazil, Deng (2010) argues that the resource-driven trade between China and Brazil is typically monopolized by Chinese companies. As a result, the profit from selling natural resources is highly immobile in Brazil's economic system and cannot be used efficiently to benefit economic development in the other sectors. Meanwhile, Gallas (2012) argues that despite the contributions of Chinese investment to the economic recovery of Brazil after the economic crisis, it did not support the industrial upgrade of Brazil since it did not provide significant technological transfers that would benefit Brazil's R&D growth.

In terms of the geopolitical implications of the Sino-Brazilian relationship, most researchers viewed the United States as the other major player in the region. Henrique Altemani de Oliveira is one of the first Brazilian scholars who published comprehensive research on the Sino-Brazilian relationship from the geopolitical perspective. In his article: *Brazil-China: Thirty years of a strategic partnership* (2004), Oliveira provided a historical review on the relationship between China and Brazil since the 19<sup>th</sup> century. In this paper, Oliveira argues that the cooperation between China and Brazil is not only based on economic need but also rooted in the shared quest of reaching for a higher international status between the two countries. However, he views the economic and political presence of the United States as the major obstacle for the expansion of Chinese economic influence in Brazil and Latin America. This argument was re-visited by Ellis (2009), as the author argues the Chinese government is mainly focusing on the expansion of trade and investment in Latin America while avoiding conflict with the United States in the region.

In 2012, Oliveira published *Brazil and China: South-South cooperation and strategic partnership*. In this research, Oliveira stressed the strategic potential of the improved relationship between China and Brazil in the last decade under the South-South Cooperation framework. However, he demonstrated doubt on the viability of the political and economic objective set by China and Lula's government within the joint governmental statement due to the division of policy focus between two countries.

Some scholars also addressed the Chinese presence in Latin America as a positive force in the geopolitical landscape. In José-Augusto Guilhon-Albuquerque's article *Brazil, China, US: a triangular relation?* (2014) The author argues that Brazil can play an active role in cultivating a positive common agenda on trade and economic development with China and the United States in Latin America. Ellis (2009) also made a similar argument as he believes despite their competition, Brazil, China, and United States are moving toward a more constructive relationship that will benefit the future development of Latin America.

### **3. Constructing Criteria**

The current economic struggle of Brazil is deeply related to the developmental policy adopted by the worker party administration headed by Lula and later Rousseff. After the failure of ISI policy in the 1980s and the unsuccessful privatization policy in the 1990s, President Lula was elected based on his political promise for improving the living standard of lower-income populations and stabilizing Brazil's fragile economy. During Lula's administration, the Brazilian economic policy was centered on robust financial regulation stabilization, strengthening domestic markets, promoting social welfare, and mineral and agricultural exports (Arestis, Paula, Filho, 2007).

The result of Lula's economic reformation was primarily viewed as a success during his administration. Under the influence of comparative advantage theory, Lula's administration strongly supported the development of the Brazilian agricultural sector, which enabled Brazil to become "the breadbasket of the world," as he described during an interview in the European Parliament (European Parliament External Relations, 2007). By 2018, Brazil had become the largest exporter of beef and sugar and the second-largest soybean exporter in the world, largely thanks to the high demand from China (Datamarnews, 2019). The trade surplus Brazil received through exporting mineral and agricultural products helped Lula to consolidate enough resources to support his massive social welfare programs, such as Bolsa Familia, aimed at improving the living quality and education for the lower-income populations (Tepperman, 2016). From 2003 to 2010, the Brazilian middle class grew from 37% to 50% of the total population, while the median of Brazilian household income raised 37% (Lyons, Prada 2010). To put the Brazilian inflation in control, the Lula administration also adopted strict inflation targeting monetary policy, which created a more stable internal market in Brazil.

However, despite its early success, Lula's Policy eventually led to many economic problems that fully emerged during the presidency of his predecessor, Rouseff. First of all, as the foundation of Lula's economic policy, Brazil's booming agricultural and mineral exports eventually worsened the Brazilian economic environment for the manufacturing sector and further reinforced Brazil's role as the importer of high-value goods and exporter for low-value goods (Kliass, 2011). The high-interest rate in Brazil also caused a great appreciation of Brazil's currency, which worsened the deindustrialization process of Brazil. It also created the high dependence of Brazil's economy on the international price of the commodity, which significantly contributed to Brazil's economic crisis in 2016 (European Central Bank, 2016).

Secondly, the massive welfare programs of the Lula administration eventually worsened the debt condition of the Brazilian government, and despite the impressive increase of the Brazilian middle class, the Lula administration failed to provide the social infrastructure, and stable job opportunities necessary to support it, leaving a generation of Brazilians extremely economically vulnerable and politically unstable (Anderson, 2019). These conditions spilled over to the Brazilian welfare program, which eventually became unsustainable. One of the examples of the fragile welfare system in Brazil is the program of Bolsa Familia: the largest social program initiated by the Lula administration. In the last 15 years, Bolsa Familia has significantly improved the health and education condition among the low-income population in Brazil by offering financial support to low-income families. However, primarily as a financial support program, Bolsa Familia fails to address more substantial causes for poverty and economic inequality, such as unemployment, lacking proper social infrastructure, and slow economic development in rural areas.

Without creating more economic opportunities, Bolsa Familia encouraged the low-income population's economic dependency on government programs. During the economic recession from 2014 to 2016, the Bolsa Familia program has been proven unsustainable as it started to face severe funding problems, which led to an overall detrimental impact on the living condition of the lower-income families (Maranhao, 2020). As a result, the positive social impacts of Bolsa Familia on education and health started to dwindle as the economic gap in Brazil increased. (Concalves, Menicucci, Amaral, 2017) In this circumstance, despite early successes, welfare programs like Bolsa Familia eventually became unsustainable due to a lack of efficient economic programs and infrastructure development.

Thirdly, the inflation targeting policy of Lula's administration reduced the rate of foreign direct investment in Brazil and subsequently led to the reduction of capital productivity (Gaulard, 2015). The high interest and high tax rate gravely harmed the confidence of foreign

investors and the Brazilian private sector. Lula government's tax policy eventually led to the reduction of job availability in the labor market and increased the vulnerability of the Brazilian middle class (Gaulard, 2015).

Facing the current economic struggle of Brazil, the objective of the future Brazilian governmental policy on managing the economic relationship with China should be resolving the economic challenges above. To achieve this objective, there are three major policy criteria:

A. The policy should efficiently address the current economic struggle that Brazil is facing.

B. The policy should promote the long-term economic competitiveness of Brazil by benefiting Brazil's industrial upgrade, infrastructural development, and technological development.

C. Since Brazil has a very competitive democratic political system, the policy should have sufficient political viability, which means it needs to appeal to the voter base of the current administration while preserving Brazil's economic sovereignty.

#### **4. Policy Options and Evaluation**

In order to find a policy solution for Brazil to best utilize its economic relationship with China to benefit its short term and long-term economic development, this paper investigated three policy options that are available to the current administration.

The first policy option is the neo-liberalism option, which requires the current administration to allow the foreign capital to enter the sectors that previously monopolized by the Brazilian company. This includes the mineral sector, aviation industry, energy sector, and transportation sector (Squire Sanders, 2014). Brazil also needs to reduce barriers and regulations for foreign investors, including reducing taxation, actively deregulating labor, and allowing the Chinese capital to become shareholders of the nationally owned enterprise, especially the electricity sectors and mineral sectors.

As a part of the current economic agenda of the Bolsonaro government, the liberalism approach is a quick way to resolve many short-term economic challenges that Brazil is currently facing. During his visit to China, Bolsonaro stated that he welcomed the Chinese company to join the bidding acquisition for the Petrobras, the largest state-owned petroleum cooperation in Brazil (Reuters, 2019). The entrance of Chinese capital can quickly allow the real interest rate to fall, which can significantly stimulate the Brazilian economy. It can also create an immediate cash inflow for the Brazilian government to reduce the debt pressure left by the previous government. Finally, the introduction of foreign capital, including Chinese capital, into the previously inefficiently managed and nationally owned enterprise can provide an opportunity for introducing a more efficient and profit-driven managerial method and even offer more access for technological transfer, which can help in increasing Brazil's economic efficiency in the long term.

However, the neo-liberalism approach can also lead to high political and economic risks for the current administration. First of all, the privatization will not fundamentally change the unbalanced economic relationship between China and Brazil. Instead, handing control of the national owned mineral and agricultural cooperation would only strengthen Brazil's economic dependence on China. At the same time, the privatization of the nationally owned enterprise would not necessarily improve the condition of Brazil's economy based on the history of previous policy practice. In the 1990s, the Mello administration massively privatized the Brazilian energy sector, which led to a critical energy crisis from 1997 to 1999, due to mismanagement (Tankha, 2019).

The massive scale and poor management of Brazilian national owned enterprises are not very attractive to foreign investors. In the example of privatization of the Brazilian energy

sector in the 1990s, after the early investment rush from the international investors, the serious financial problems of the Brazilian electricity enterprise eventually become unattractive to foreign investors (Tankha, 2019). Currently, although many Chinese private companies have shown interest in investing in Brazil, there is no strong indication that Chinese companies are interested in purchasing Brazil's nationally owned enterprises. Instead, Chinese companies are more interested in co-operating with Brazilian enterprises in Brazil (Leahy, Schipani, Hornby, 2017). In these circumstances, the neo-liberalism policy may not achieve the objective of reducing government debt as the policy designer expected.

The risk for liberalism policy also resides in the political sector. A plan of selling Brazilian national owned enterprise to Chinese company are firmly contradicted to Bolsonaro's nationalist political promise during his election on protecting Brazil's economic sovereignty, which will be extremely harmful to the population support of current administration. More importantly, many Brazilian nationalized companies in the energy and transportation sectors are also tied to the conservative interest groups in Brazil, especially the military and former military personnel. A privatization plan will unavoidably damage their economic interest and their support to the current administration (Cardin, 2019). Finally, the cooperative restructuring caused by privatization can also cause an increase in the unemployment rate, which can politically destabilize Brazilian society.

The second policy approach is the developmental approach, which is a continuation of Rousseff's policy on stimulating Brazil's economy through large governmentally operated projects. The economic plan should include infrastructure development projects, government subsidy programs designed to improve the competitiveness of the Brazilian enterprises in the international markets, and rebuilding the domestic markets of Brazil. As a retreat from Lula's overspending of governmental resources, Rousseff first reduced the governmental support on the unrealistic oversea economic expansion project adopted by Lula, including the agricultural project of Brazilian development cooperation in Africa, in order to drive more resources back to Brazil's domestic market (Marcondes, Mawdsley, 2017). She then started a massive governmental support program, including the expansion of the Brazilian National Bank for Economic and Social Development (BNDES) and Initiative for the Integration of South American Regional Infrastructure (IIRI) to provide more opportunity for Brazilian infrastructure development and even trying to expand the project to other Latin American countries (Gwynn, 2017). Finally, Rousseff's administration also adopted multiple nationally sponsored industrial development projects to further stimulate the national economy, represented by the "Plano Brasil Maior," which focuses on improving Brazil's capability of technological innovation and industrial productivity (Zanatta, 2011).

Rousseff's developmental framework provided an established system of economic development programs for the current administration. It also provides excellent cooperation opportunities under the international framework, such as the New Development Bank (NDB), established by the BRICS (Brazil, Russia, India, China, South Africa) states, which is an economic coalition established by the five largest emerging economy in the world. Through the massive infrastructure and industrial development projects, the current government can create a large number of jobs to reduce unemployment and stimulate the domestic economy effectively.

The development of social infrastructure can effectively serve the Brazilian economic development in the long term. Under these circumstances, Brazil's deep economic ties with China can offer Brazil more access to Chinese capital and lending under the institutional structure of the New Development Bank (NDB) and Asian Infrastructure Development Bank (AIIB) with preferable conditions. As an example, contrary to World Bank, AIIB does not include privatization and deregulation as a part of loan conditionality, which addressed the concern of the Brazilian population on Brazil's economic sovereignty (Koh, 2015). Chinese

companies can also provide technical support for Brazil's infrastructure development projects. Finally, the industrial development project "Plano Brasil Maior" can also increase access to more diverse goods and services to the population, which can both boost Brazil's industrial development and increase the standard of living of the Brazilian population.

The primary concern about this policy is its efficiency. First of all, the industrial development project "Plano Brasil Maior," was intensely criticized for its protectionist practices, as it is highly reliant on the governmental purchases, its anti-dumping policy, and payroll tax exemption (Novais, 2011). In the context of Brazil, the protectionist policy can not only damage the rate of foreign direct investment from China but can also make Chinese enterprises less willing to commit to technological transfers. The protectionist nature of the developmental policy will make Brazilian enterprise unable to utilize its economic relationship with China for technological exchange, which is crucial for the industrial upgrade of Brazil. The Brazilian economy primarily utilizes its economic relationship with China through financial lending, which can further worsen the debt pressure of the Brazilian government.

The developmental policy can also lead to more significant economic inefficiency and corruption due to the consolidation of the political and economic power of the government. Many Scholars have emphasized that government-led industrialization programs in Brazil are usually controlled by privileged groups within specific political or military circles (Candler, 1996). The enterprises created by such a system are usually highly uncompetitive and deeply reliant on governmental subsidies and political corruption to survive. In this situation, the developmental policy approach will be unable to achieve acceptable economic efficiency without the support of a comprehensive political reformation on increasing governmental transparency and integrity, which may take longer than most economic reformation.

The third policy option would be the bilateral trade-upgrade approach. This approach requires the Brazilian government to seek and reach a bilateral free trade agreement with China, as well as further encourage economic cooperation in the private sector between China and Brazil by establishing better investment policy and commercial environment. Compared to the previous two approaches, the trade-upgrade approach requires the least restructuring of Brazil's established economic structure, which is less politically risky. However, it can also be argued that this approach ultimately avoids comprehensive economic reformation.

Among the primary measures of trade-upgrade approach, the reduction or even elimination of tariffs played an essential role. Based on the research of the World Bank, by 2014, both China and Brazil adopted relatively high tariffs from an international perspective. However, the World Bank research is arguable as both China and Brazil start to balance their economies, the increasing complementarity of the bilateral trade will encourage both countries to reduce tariffs and other trade barriers (The World Bank, 2014). This prediction came true in 2019, as the Chinese government declared that it would eliminate the tariff on sugar by 2020 (YNTW, 2019) and reduce the tax for airliners (China Briefing, 2019) while Brazil chose to reduce tariffs on Chinese manufacturing goods by 10% (Reuters, 2019). As both China and Brazil are actively reducing the trade barriers between them, it is evident that both countries are promoting the bilateral trade relationship between them beyond the trade of natural resources.

Although the current complementarity of Sino-Brazilian trade is still highly based on the commodity trade, there is still considerable room for economic cooperation in more diverse sectors. As Rhys and Barbosa (2012) have argued, Chinese manufacturing products are not highly competitive against the Brazilian manufacturing sector, due to the high demand of the Brazilian domestic market and the different focus of the Chinese and Brazilian industries. Rhys further argued that the better industrial foundation of Brazil could help it catch the opportunity of the Chinese market during its transitional period and build an economic

relationship with China different from other resource exporting countries. A recent example was the successful business expansion of Brazilian aerospace conglomerate (Embraer) in the Chinese regional airliner market, as it demonstrated the opportunity of Brazilian enterprise to utilize its unique advantage and become successful in the Chinese market (Zhu, 2019).

Moreover, the introduction of Chinese private enterprises, especially technology companies like Huawei and Tencent, into Brazil, can bring indirect investment, significantly helping Brazil's economic development. As Becard and Macedo argued, compared to the Chinese nationally owned monopolies which are more active in the mineral, energy and agricultural sectors, the Chinese private enterprises tend to focus on the sectors that are less politically sensitive and much closer to Brazil's consumer market (Becard, Macedo, 2014). Such investment can provide more direct social benefits for Brazilian society by satisfying the need for consumption of the Brazilian population, as well as engaging technology transfers in more diverse economic sectors, such as 5G technology in the telecommunication sector. More importantly, Chinese private enterprises are more enthusiastic about industrial and technology transfers in order to reduce production costs and increase market efficiency. The recent investment of Huawei in its new Brazilian factory is proof of such investment (Reuters,2019). By establishing its production and R&D center in Brazil, Huawei is not only generating employment and direct investment for Brazil but also helping Brazil move toward an industrial upgrade by direct engagement with the production and research of some of the most advanced telecom companies.

### **5. Policy Recommendation and Conclusion**

After evaluating the three policy options above with the established criteria, this research concludes that the bilateral trade-upgrade approach is the most viable and efficient approach to generate both short and long-term economic benefits for Brazil's economy. Since the majority of the private enterprise tends to avoid the politically sensitive sectors, it usually creates less political risk for the current administration. At the same time, the private enterprise also tends to engage in technology transfers and industrial migration, which can generate considerable employment opportunities, direct investment, and government revenue to solve the short-term economic challenges Brazil's economy is facing. More importantly, it can also help Brazil with its industrial upgrade, which will benefit Brazil's economy in the long run. Finally, by upgrading the trade relationship with China beyond the exporting of resources, Brazil can also find new opportunities for its advanced manufacturing sector in the growing Chinese market. Based on the reasons above, this study recommends the bilateral trade upgrade approach to be adopted.

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